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## Greater opportunities: The Q&A with Datuk Ranjit Ajit Singh

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*Chairman of Securities Commission Malaysia Datuk Ranjit Ajit Singh. Pix by Yazit Razali*

Datuk Ranjit Ajit Singh is the Chairman of Securities Commission Malaysia and Chairman of Asean Capital Markets Forum

Q1. The Asean Capital Markets Forum (ACMF) was established to better integrate the region's capital markets to meet the objectives of the Asean Economic Community (AEC) Blueprint 2015. What is the progress so far and what have been the contributory factors for this? What have been the major impediments, if any, towards achieving better integration of the capital markets?

A: To provide some perspective on the work of ACMF, it is useful to revisit the objectives of the AEC Blueprint, which envisages the creation of a competitive and equitable economic region that is fully integrated into the global economy. To fulfil this vision, Asean

must function as a de facto single market and production base, which allows for the pooling of regional resources and economies of scale.

As a region with one of the highest savings rate in the world, Asean's large pools of capital are one of its most vital resources. However, a large proportion of these savings are channelled to international financial markets instead of being invested directly within the region. This is where ACMF plays a key role in driving greater intra-regional flows, which is critical in elevating the self-financing capacity of Asean and hedging its vulnerability to external shocks.

As a grouping of capital market regulators and policymakers, ACMF members are fully committed towards ensuring that Asean capital can be efficiently aggregated and mobilised into financing Asean growth. This entails removing barriers and creating new pathways that will allow providers of capital to directly interface with those seeking to finance their investments and business expansion within the region.

In this regard, ACMF has recorded significant progress in developing initiatives for greater intra-Asean capital market interconnectivity. Over the last decade, we have implemented several measures to enable greater cross-border capital, issuer and intermediary mobility which include:

- i. Harmonised Asean disclosure standards for equity and plain debt securities to facilitate cross-border capital raising by issuers
- ii. Faster approval process under the expedited review framework for secondary listings in participating Asean countries
- iii. Establishment of an Asean Trading Link structure that allows for connectivity among participating Asean countries and more efficient investor access into regional stock markets
- iv. Allowing providers of collective investment schemes, such as unit trust funds, to offer their products across the region which broadens investor choice and provides market intermediaries with access to a significantly larger client base
- v. Identifying major regional companies through avenues such as the Asean Corporate Governance Scorecard to elevate the profile of ASEAN as an asset class

The progress we have made is a clear testament to the commitment of all ACMF members, each of whom has put in significant investments in time and expertise to develop and execute these reforms. The strong willingness demonstrated by Asean capital market authorities and our respective governments in pursuing greater capital market integration will continue to be an important pillar for ACMF as we embark on the next phase of our reform agenda.

Moving forward, a number of challenges remain including divergent domestic policies on capital account liberalisation, withholding tax structures and investor protection regimes. However, as these reforms do not always fall within the direct remit of ACMF members, they will be pursued through the various avenues for cooperation available under the Asean institutional structure.

Q2. What is the Malaysian capital market's position or role in the development of this deep, liquid and integrated regional capital market?

A: The Malaysian capital market is a significant part of the Asean landscape, as it is home to the region's largest bond market and unit trust industry as well as the highest number of listed companies. Globally, we are also the world's leading Islamic capital market and largest issuer of sukuk, with two-thirds of worldwide sukuk originating in Malaysia.

Recognising the mutual benefits to Asean from greater integration, over the years the Securities Commission Malaysia has worked closely with other ACMF members to facilitate cross-border investment flows within the region. We have played a significant role in a number of areas including corporate governance, exchange linkages and cross-border offering of securities and investment products.

Malaysia's experience in international regulatory benchmarking, corporate bond market development and Islamic finance, in particular, has been valuable as a source of shared knowledge with our regional counterparts. As the current Chair of ACMF, we deeply value the continued commitment of our fellow Asean regulators in driving the capital market integration agenda and will continue to work closely with them in developing ACMF's post-2015 agenda.

As a regulator, the SC also recognises that a key concern for domestic companies and capital market intermediaries are the potential competitive pressures arising from greater integration. However, we believe that Malaysian firms and businesses are well-placed to leverage on the opportunities generated by AEC, given their ability to access a broader pool of capital, talent and consumers, with a few of our larger market players already illustrating the benefits from a well-established regional footprint.

Q3. One of the main objectives is to raise the profile of Asean as an asset class in order to attract greater international investment in the region. What would be the key drivers to achieve this?

A: As one of the world's most dynamic regions, Asean provides a compelling investment proposition. With a population of more than 600 million and nominal GDP of US\$2.5 trillion, Asean is already one of the largest recipients of investments from the United States and European Union and is also projected to grow into the world's fourth-largest economy by 2030.

To further enhance the appeal of Asean as an investment destination, all ACMF members are committed towards aligning our respective regulatory frameworks with international standards and best practices. The IMF and World Bank, for example, rated Malaysia very highly in terms of capital market regulation with our framework deemed to be robust and extensive. ACMF's continuous efforts to strengthen the regional regulatory architecture is an important competitive advantage for Asean, as an effective market oversight regime helps to foster greater investor trust and confidence in the region.

ACMF also takes a strong stance on raising standards of corporate governance and transparency among listed companies within Asean to provide investors with assurance vis-à-vis the reliability of corporate disclosures and the investability of our companies. At the same time, ACMF has launched initiatives to showcase high-performing and well-governed Asean companies such as the OECD-validated Asean Corporate Governance Scorecard and rankings, which are now in their fourth year.

These initiatives are complemented by efforts from the private sector to further raise the profile of Asean internationally. This has culminated in, among others, the launch of the FTSE Asean Index Series which feature large, mid- and small-cap stocks from exchanges in Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam, as well as Asean exchange-traded funds (ETFs) which provide investors with exposure to the overall asset class. Such proactive initiatives are highly welcomed by ACMF and we encourage the private sector to continue to play a greater role in driving the promotion of the Asean asset class.

However, it is important to clarify that raising the profile of Asean as an asset class is not only intended to attract international investments but also generate greater intra-regional interest. It is clear that there remain significant untapped sources of capital within the region that can be channelled through the various liberalisation initiatives pursued by ACMF.

Q4. How will Malaysian market participants benefit from the various initiatives of the ACMF so far? Going forward, what will the situation be?

A: The ACMF measures implemented to date have provided Malaysian market participants with greater opportunities to participate in the Asean growth story. Initiatives such as the framework for cross-border offering of Asean funds and the Asean Trading Link enable Malaysian investors to gain access to investment products offered by other Asean fund providers and invest directly in the stock markets of Singapore and Thailand – with more to come as other Asean member countries meet the conditions necessary to participate in the Link. In addition to benefiting from greater choice, the gradual liberalisation of these sectors also promote greater competition and cost efficiencies among market intermediaries, thus further reducing costs for investors.

As Malaysian businesses expand their regional operations, measures to facilitate cross-border issuances such as a single set of standards for equity and plain debt offerings as well as arrangements for expedited secondary listings will also make it easier for these companies to obtain financing in other Asean currencies, enabling a better match between the currency mix of their funding base and operating costs.

This projected growth in cross-border investment activities provide significant opportunities for market intermediaries and financial services providers, with the on-going lifting of barriers to capital and professional mobility opening up a much wider investor base across Asean. The region's favourable demographic trends, with over half of the population under the age of 30, and rapidly growing middle class will further drive the expansion of these opportunities.

With greater interconnectivity through further measures that will be pursued by ACMF, Asean issuers, investors and intermediaries can look forward to a more seamless cross-border investment experience and reduced friction costs – all of which will contribute towards more efficient mobilisation of capital for the long-term growth of the region.

Q5. Asean currently constitutes 11 per cent of the market capitalisation for Asia-Pacific and 3 per cent of world market cap. How do you see this growing and what role will the ACMF initiatives play?

A: Asean is the seventh largest economy in the world today with close to 6 per cent of global GDP while the region's exchanges have a combined market capitalisation of more than US\$2.4 trillion, placing Asean eighth among leading stock exchanges. Certainly the Asean exchanges' current collective size at 3 per cent of global market capitalisation does not wholly reflect the region's economic clout and future growth prospects, which further underscore the scope for further progress and gains.

Future market expansion may be driven by the region's growing long-term financing needs, with approximately US\$8 trillion in infrastructure-related investments needed for the region (ADB estimates). In addition to prioritising the development of domestic capital market capacity, ACMF is also committed towards ensuring that the region's markets are well-positioned to mobilise existing pools of capital through the establishment of strong and resilient market infrastructure as well as deep bond and equity markets, nurturing a mutually beneficial regional investment culture and growing globally-competitive listed companies.

Q6. What are the key initiatives under the ACMF Implementation Plan? Do you see a need to implement new initiatives to further drive the ambitious ACMF agenda?

A: The ACMF Implementation Plan, which was released in 2009, focused on achieving the following three broad objectives:

- Creating an environment for regional integration by adopting a mutual recognition framework
- Creating the necessary market infrastructure and regionally-focused products and intermediaries through an Asean exchange alliance and governance framework, the promotion of ASEAN as an asset class and further strengthening of the bond market
- Strengthening the implementation process by aligning domestic capital market development plans with the regional integration agenda and reinforcing the Asean working process

As highlighted earlier, initiatives undertaken under the Implementation Plan have resulted in encouraging progress towards greater Asean interconnectivity. However, integration is a continuum and ACMF is presently working to develop an action plan to guide our priorities over the next five years.

Q7. Currently, not all the members of the ACMF have stock exchanges in their respective countries. What is ACMF's role in ensuring that there is an active stock exchange in each member country?

A; ACMF places significant emphasis on facilitating overall domestic capital market development in each member country, which includes not only the equity market but also the bond market and intermediation capabilities such as the fund management industry.

At present, Asean has six active markets, with another two at a nascent stage and one in the process of being established. ACMF provides a platform for the pooling and sharing of mutual expertise, which member countries may leverage on in pursuing their respective developmental agenda, including the establishment of a stock exchange and other forms of market institutions.

At the same time, we also recognise that the increasing digitisation of markets and on-going breakthroughs in technology hold significant promise in enabling financial solutions to be provided to investors and businesses across the region – potentially reducing the need for traditional market structures particularly as integration efforts reach a more advanced stage.

Q8. How is the Asean Trading Link working? Why is there a delay in the participation of other exchanges such as the ones in Indonesia and the Philippines? Do you see a need to further strengthen the opportunities in this area?

A: The establishment of the Asean Trading Link is the culmination of significant efforts by the exchanges and we acknowledge their role in working with ACMF members in driving this process. Like all measures pursued by ACMF, the Asean Trading Link is structured on an opt-in basis in the sense that the initiative was collectively developed and endorsed by all member states, illustrating their appreciation for its value proposition. Moreover, the

opt-in approach enables ACMF member jurisdictions to sign on to specific measures once their respective domestic market conditions are conducive for participation.

For example, one of the most important preconditions for sign-on for the Asean Trading Link as well as other ACMF initiatives is for a jurisdiction to sign on to the Multilateral Memorandum of Understanding (MMOU) developed by the International Organisation of Securities Commissions (IOSCO) which enables cross-border supervision and enforcement – a critical element of ensuring that laws protecting investors and contractual undertakings may be upheld across multiple jurisdictions. Indonesia became a signatory to the MMOU in 2014, and preparations for the Philippines to sign on to the MMOU have also reached an advanced stage.

Hence, while the Asean Trading Link is currently operational among the stock exchanges of Malaysia, Singapore and Thailand, other regional exchanges may also plug in once the necessary preconditions are met to ensure regulatory and investor protection equivalence.

Q9. How does the Asean Corporate Governance Scorecard work? How will the market participants in the region benefit from it?

A: Corporate governance is one of the most important considerations for investing in the capital market. It is essential to the integrity of markets and a major component in influencing investor confidence.

The Asean Corporate Governance Scorecard is a regional collaboration led by the Securities Commission and supported by the Asian Development Bank (ADB). It was created to showcase and enhance the visibility as well as investability of well-governed Asean public listed companies. It is also intended to raise the corporate governance standards and practices of Asean public listed companies.

The scorecard which uses the Organisation for Economic Cooperation and Development Principles of Corporate Governance as the main benchmark was created by a group of independent corporate governance experts from the six participating countries - Malaysia, Singapore, Thailand, Indonesia, Philippines, and Vietnam.

As a diagnostic tool, the scorecard help identify the strengths and gaps in CG practices, which provides regulators and corporate governance proponents useful data points that can be used to guide corporate governance reform and strategies. It also provides foreign investors and external fund managers access to more insightful and comparable information which would assist and influence their investment decisions.

This initiative would certainly encourage ASEAN public listed companies to improve their CG practices to attract investments at the same time lower the cost of raising capital. More importantly as more ASEAN companies begin to establish regional footprints outside their home country, the adoption of CG best practices serves as an important competitive differentiator.

Q10. When can we expect to see a “truly” integrated Asean capital market and how will it compare with other similar integrated markets?

A: Asean stands out as a unique combination of countries committed in common efforts to attain economic growth and cooperation. Regional integration efforts are aimed at creating greater interconnectivity, harmony and cohesion among member countries and these efforts have since progressed beyond preferential trade arrangements and liberalisation to include freer flow of capital by linking and enhancing access to markets.

However, it is important to sustain the momentum in these efforts and to look at creating enabling conditions and opportunities for access including harmonisation of rules and laws. The initiatives under the ACMF towards greater interconnectivity of markets can be seen as a prelude to integration.

Q11. How critical is ACMF’s role in ensuring the success of meeting the overall objectives of the AEC Blueprint 2015?

A: For Asean’s long-term development prospects to be realised, greater integration among the region’s capital markets is crucial in enabling the aggregation and mobilisation of pools of capital into meeting real economy financing needs. Therefore, ACMF plays an important role in creating a conducive environment for capital formation throughout the Asean region, which is an important contributor to broad-based growth and sustained competitiveness.

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